

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 29
LUCERNE VALLEY**

REPORT ON AUDIT

JUNE 30, 2006

**County of San Bernardino Special Districts
County Service Area No. 29
Lucerne Valley
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County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 29 - Lucerne Valley

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 29 - Lucerne Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2006, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 29 - Lucerne Valley, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budget comparison information on pages 25 - 26 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. 29 - Lucerne Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

Rogers, Anderson, Malachuk & Scott, LLP

September 15, 2006

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County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 408,412	\$ 15,667	\$ 424,079
Accounts receivable, net	-	62,951	62,951
Special activities fund	6,289	-	6,289
Interest receivable	2,876	615	3,491
Taxes receivable	139,035	-	139,035
Due from other governments	16,427	-	16,427
Capital assets, net of depreciation	1,288,826	-	1,288,856
	<hr/>	<hr/>	<hr/>
Total Assets	1,861,865	79,233	1,941,128
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Salaries and benefits payable	19,656	-	19,656
Due from other governments	11,032	15,475	26,507
Compensated absences payable	14,743	-	14,743
	<hr/>	<hr/>	<hr/>
Total Liabilities	45,431	15,475	60,906
	<hr/>	<hr/>	<hr/>
NET ASSETS			
Invested in capital assets	1,288,856	-	1,288,856
Restricted	6,289	-	6,289
Unrestricted	521,319	63,758	585,077
	<hr/>	<hr/>	<hr/>
Total Net Assets	<u>\$ 1,816,464</u>	<u>\$ 63,758</u>	<u>\$ 1,880,222</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Services Area No. 29 - Lucerne Valley
Statement of Activities
For the Year Ended June 30, 2006

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 1,309,808	\$ -	\$ 1,309,808
Services and supplies	276,349	147,160	423,509
Depreciation	46,808	-	46,808
Total Program Expenses	<u>1,632,965</u>	<u>147,160</u>	<u>1,780,125</u>
PROGRAM REVENUES			
Charges for services	886	320,587	321,473
Net Program (Expense) Revenue	<u>(1,632,079)</u>	<u>173,427</u>	<u>(1,458,622)</u>
GENERAL REVENUES			
Property taxes	1,185,067	-	1,185,067
Other taxes	84,466	-	84,466
State assistance	18,098	-	18,098
Investment earnings	12,338	2,376	14,714
Intergovernmental	174,045	-	174,045
Other	22,112	-	22,112
TRANSFERS - INTERNAL ACTIVITIES	<u>233,075</u>	<u>(233,075)</u>	<u>-</u>
Total General Revenues and Transfers	<u>1,729,201</u>	<u>(230,699)</u>	<u>1,498,502</u>
Change in Net Assets	97,122	(57,272)	39,880
Net Assets - beginning	<u>1,719,312</u>	<u>121,030</u>	<u>1,840,342</u>
Net Assets - ending	<u><u>\$ 1,816,434</u></u>	<u><u>\$ 63,758</u></u>	<u><u>\$ 1,880,222</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Balance Sheet
Governmental Funds
June 30, 2006

	SPECIAL REVENUE FUNDS		PERMANENT FUND
	Fire (SGF)	General (SGG)	Cemetery (TAD)
ASSETS			
Cash and cash equivalents	\$ 33,561	\$ 188,387	\$ 77,491
Special activities fund	-	6,289	-
Interest receivable	2,065	-	733
Taxes receivable	113,633	25,402	-
Due from other funds	15,475	-	-
Total Assets	<u>\$ 164,734</u>	<u>\$ 220,078</u>	<u>\$ 78,224</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 4,616	\$ 15,040	\$ -
Due to other governments	11,032	-	-
Total Liabilities	<u>15,648</u>	<u>15,040</u>	<u>-</u>
Fund Balances:			
Reserved for:			
Special activities	-	6,289	-
Unreserved:			
Undesignated	<u>149,086</u>	<u>198,749</u>	<u>78,224</u>
Total Fund Balances	<u>149,086</u>	<u>205,038</u>	<u>78,224</u>
Total Liabilities and Fund Balances	<u>\$ 164,734</u>	<u>\$ 220,078</u>	<u>\$ 78,224</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Compensated absences payable are not financial resources and, therefore, are not reported in the funds.

Net Assets of Governmental Activities

The accompanying notes are an integral part of these financial statements.

CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
Bay Expansion (CQQ)		
\$ 71,414	\$ 37,559	\$ 408,412
-	-	6,289
-	78	2,876
-	-	139,035
668	284	16,427
<u>\$ 72,082</u>	<u>\$ 37,921</u>	<u>\$ 573,039</u>
\$ -	\$ -	\$ 19,656
-	-	11,032
-	-	30,688
-	-	6,289
72,082	37,921	536,062
72,082	37,921	542,351
<u>\$ 72,082</u>	<u>\$ 37,921</u>	
		1,288,856
		 (14,743)
		<u>\$ 1,816,464</u>

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	SPECIAL REVENUE FUNDS		PERMANENT FUND
	Fire (SGF)	General (SGG)	Cemetery (TAD)
REVENUES			
Property taxes	\$ 896,142	\$ 288,925	\$ -
Other taxes	-	84,466	-
State assistance	-	18,098	-
Investment earnings	7,267	-	2,134
Service fees	250	636	-
Other	405	21,707	-
Total Revenues	904,064	413,832	2,134
EXPENDITURES			
Salaries and benefits	994,427	314,227	-
Services and supplies	200,055	76,294	-
Capital outlay:			
Structures and improvements	21,835	-	-
Equipment	76,633	-	-
Total Expenditures	1,292,950	390,521	-
Excess of Revenues Over (Under) Expenditures	(388,886)	23,311	2,134
OTHER FINANCING SOURCES (USES)			
Transfer in	429,161	-	-
Transfer out	(37,966)	-	-
Total Other Financing Sources (Uses)	391,195	-	-
Net Change in Fund Balances	2,309	23,311	2,134
Fund Balances - beginning	146,777	181,727	76,090
Fund Balances - ending	<u>\$ 149,086</u>	<u>\$ 205,038</u>	<u>\$ 78,224</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
Bay Expansion (CQQ)		
\$ -	\$ -	\$ 1,185,067
-	-	84,466
-	-	18,098
2,082	855	12,338
-	-	886
-	-	22,112
2,082	855	1,322,967
-	-	1,308,654
-	-	276,349
-	30,397	52,232
-	-	76,633
-	30,397	1,713,868
2,082	(29,542)	(390,901)
70,000	(54,075)	445,086
-	-	(37,966)
70,000	(54,075)	407,120
72,082	(83,617)	16,219
-	121,538	526,132
\$ 72,082	\$ 37,921	\$ 542,351

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	16,219
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$(128,865) exceeded depreciation expense (\$46,808) in the current period.		82,057
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences payable		(1,154)
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Change in Net Assets of Governmental Activities	\$	97,122
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Net Assets
Proprietary Fund
June 30, 2006

	ENTERPRISE FUND <hr/> Ambulance <hr/>
ASSETS	
Cash and cash equivalents	\$ 15,667
Accounts receivable, net	62,951
Interest receivable	615
	<hr/>
Total Assets	79,233
	<hr/>
LIABILITIES	
Due to other governments	15,475
	<hr/>
Total Liabilities	15,475
	<hr/>
NET ASSETS	
Unrestricted	63,758
	<hr/>
Total Net Assets	\$ 63,758
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Revenues, Expenses and Change in Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	ENTERPRISE FUND <u>Ambulance</u>
OPERATING REVENUES	
Charges for services	\$ 320,587
Total Operating Revenues	<u>320,587</u>
OPERATING EXPENSES	
Services and supplies	<u>147,160</u>
Total Operating Expenses	<u>147,160</u>
Operating Income	<u>173,427</u>
NONOPERATING REVENUES	
Investment earnings	<u>2,376</u>
Total Nonoperating Revenues	<u>2,376</u>
Income Before Transfers	175,803
TRANSFERS OUT	<u>(233,075)</u>
Change in Net Assets	(57,272)
Net Assets - beginning	<u>121,030</u>
Net Assets - ending	<u><u>\$ 63,758</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006**

	ENTERPRISE FUND <u>Ambulance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 317,760
Payments to suppliers	<u>(131,685)</u>
Net Cash Provided by Operating Activities	<u>186,075</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	<u>(233,075)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>1,966</u>
Net Decrease in Cash and Cash Equivalents	(45,034)
Cash and Cash Equivalents - beginning of the year	<u>60,701</u>
Cash and Cash Equivalents - end of the year	<u><u>\$ 15,667</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 173,427
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
(Increase) in accounts receivable, net	(2,827)
Increase in due to other governments	<u>15,475</u>
Net Cash Provided by Operating Activities	<u><u>\$ 186,075</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 29 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on July 27, 1987 to provide ambulance transportation services, fire protection, park and recreation services, a cemetery, television translators, and streetlights to the community of Lucerne Valley.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 29 of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2006.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Fire" provides fire protection to the Community of Lucerne Valley under the administrative direction of the San Bernardino County Fire Department.

The *permanent fund* labeled "Cemetery" provides maintenance and upkeep for cemetery grounds in Lucerne Valley.

The *capital projects fund* labeled "Bay Expansion" is used to account for financial resources to be used for the acquisition of construction for major capital facilities.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Ambulance" accounts for the activities of the CSA, a blended component unit of the County. The CSA operates the ambulance transportation services under the administration of the County Fire Department.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise fund is charges to customers for ambulance transportation services. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance of the Ambulance Enterprise Fund at June 30, 2006 is net of an allowance for doubtful accounts of \$361,208.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2006 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>\$ 13,589</u>	<u>\$ 19,584</u>	<u>\$ (18,430)</u>	<u>\$ 14,743</u>

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2006.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

NOTE 3: RECEIVABLES

At June 30, 2006, the receivables were composed of the following:

	<u>Ambulance</u>
Accounts receivable	\$ 424,159
Less: allowance for uncollectibles	<u>(361,208)</u>
Net Total Accounts Receivable	<u><u>\$ 62,951</u></u>

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 95,507	\$ -	\$ -	\$ 95,507
Construction in progress	46,702	30,397	(36,655)	40,444
Total capital assets, not being depreciated	142,209	30,397	(36,655)	135,951
Capital assets, being depreciated:				
Land improvements	695,557	-	-	695,557
Structures and improvements	983,291	58,490	-	1,041,781
Vehicles	410,196	76,633	-	486,829
Equipment	313,800	-	-	313,800
Total capital assets, being depreciated	2,402,844	135,123	-	2,537,967
Less accumulated depreciation for:				
Land improvements	(364,795)	(12,122)	-	(376,917)
Structures and improvements	(275,244)	(23,112)	-	(298,356)
Vehicles	(408,701)	(8,946)	-	(417,647)
Equipment	(289,544)	(2,628)	-	(292,172)
Total accumulated depreciation	(1,338,284)	(46,808)	-	(1,385,092)
Total capital assets, being depreciated, net	1,064,560	88,315	-	1,152,905
Governmental activities capital assets, net	<u>\$ 1,206,769</u>	<u>\$ 118,712</u>	<u>\$ (36,655)</u>	<u>\$ 1,288,826</u>
Business-type activities:				
Capital assets, being depreciated:				
Vehicles	\$ 85,610	\$ -	\$ -	\$ 85,610
Total capital assets, being depreciated	85,610	-	-	85,610
Less accumulated depreciation for:				
Vehicles	(85,610)	-	-	(85,610)
Total accumulated depreciation	(85,610)	-	-	(85,610)
Total capital assets, being depreciated, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 5: SPECIAL ACTIVITIES FUND

The CSA operates a revolving fund in accordance with Public Resources Code Section 5784.35. The fund is for the purpose of conducting and supervising special recreational activities. The revenue received and expenses paid are kept in commercial banks. Because the recreational activities are self-funded and are not a part of the CSA's budget, only the cash balance and related equity are reported on the CSA's *Balance Sheet* and *Statement of Net Assets*. Profits earned from special activities are reflected as part of charges for services on the *Statement of Activities* and as service fees on the *Statement of Revenues, Expenditures and Changes in Fund Balance*. The net increase in cash from June 30, 2005 to June 30, 2006 is \$106.

NOTE 6: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (the MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 6: RETIREMENT PLAN (continued)

Funding policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2006, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 166,614
Interest on Pension Assets	(34,207)
Adjustment to the Annual Required Contribution	40,156
Annual Pension Cost	172,563
Annual Contributions Made	166,614
Increase/(Decrease) in Pension Assets	(5,949)
Pension Assets, Beginning of Year	844,882
Pension Assets, End of Year	<u>\$ 838,933</u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 6: RETIREMENT PLAN (continued)

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2006 is \$439,879,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2006 is \$461,665,000.

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 8: RISK MANAGEMENT

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 8: RISK MANAGEMENT (continued)

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.25%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.7 million at June 30, 2006.

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

Fiscal Year	Beginning of Fiscal Year Liability(in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2004 - 05	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714
2005 - 06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2006**

NOTE 9: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2006, the District made the following interfund transfers in and out:

	Transfers in:				
	Fire (SGF)	Bay Expansion (CQQ)	Midway Roof (CRF)	Midway Reroof (CKV)	Total
<u>Transfer out:</u>					
Ambulance (EAJ)	\$ 233,075	\$ -	\$ -	\$ -	\$ 233,075
Shop/Shed (CAF)	-	70,000	-	-	70,000
Roofing (CXB)	-	-	40,000	-	40,000
Ceiling (CWN)	-	-	-	3,925	3,925
	<u>\$ 233,075</u>	<u>\$ 70,000</u>	<u>\$ 40,000</u>	<u>\$ 3,925</u>	<u>\$ 347,000</u>

NOTE 10: CONTINGENCIES

As of June 30, 2006, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2006

	Special Revenue Funds			
	Fire (SGF)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 782,509	\$ 782,509	\$ 896,142	\$ 113,633
Other taxes	-	-	-	-
State assistance	-	-	-	-
Investment earnings	2,000	2,000	7,267	5,267
Service fees	-	-	250	250
Other	-	-	405	405
Total Revenues	784,509	784,509	904,064	119,555
EXPENDITURES				
Salaries and benefits	996,458	999,654	994,427	5,227
Services and supplies	167,349	219,153	200,055	19,098
Capital outlay:				
Structures and improvements	-	35,000	21,835	13,165
Equipment	80,000	80,000	76,633	3,367
Reserves and contingencies	31,391	31,391	-	31,391
Total Expenditures	1,275,198	1,365,198	1,292,950	72,248
Excess of Revenues Over (Under) Expenditures	(490,689)	(580,689)	(388,886)	191,803
OTHER FINANCING SOURCES (USES)				
Transfer in	434,733	469,733	429,161	(40,572)
Transfer out	(92,966)	(37,966)	(37,966)	-
Total Other Financing Sources (Uses)	341,767	431,767	391,195	(40,572)
Net Change in Fund Balances	<u>\$ (148,922)</u>	<u>\$ (148,922)</u>	2,309	<u>\$ 151,231</u>
Fund Balances - beginning			146,777	
Fund Balances - ending			<u>\$ 149,086</u>	

Schedule One

Special Revenue Funds			
General (SGG)			
Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 314,458	\$ 314,458	\$ 288,925	\$ (25,533)
47,370	47,370	84,466	37,096
19,331	19,331	18,098	(1,233)
200	200	-	(200)
500	500	636	136
18,000	18,000	21,707	3,707
399,859	399,859	413,832	13,973
322,189	322,189	314,227	7,962
147,661	147,661	76,294	71,367
-	-	-	-
-	-	-	-
105,267	105,267	-	105,267
575,117	575,117	390,521	184,596
(175,258)	(175,258)	23,311	198,569
-	-	-	-
-	-	-	-
-	-	-	-
\$ (175,258)	\$ (175,258)	23,311	\$ 198,569
		181,727	
		\$ 205,038	

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	CAPITAL PROJECTS FUNDS		
	Cem Exp (CAE)	Well (CFW)	Generator (CFZ)
ASSETS			
Cash and cash equivalents	\$ 819	\$ 6	\$ 4
Interest receivable	-	-	-
Due from other governments	-	-	-
Total Assets	<u>\$ 819</u>	<u>\$ 6</u>	<u>\$ 4</u>
LIABILITIES AND FUND BALANCES			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:			
Unreserved:			
Undesignated	<u>819</u>	<u>6</u>	<u>4</u>
Total Fund Balances	<u>819</u>	<u>6</u>	<u>4</u>
Total Liabilities and Fund Balances	<u>\$ 819</u>	<u>\$ 6</u>	<u>\$ 4</u>

CAPITAL PROJECTS FUNDS

FS Addition (CGI)	Strge Contain (CKU)	Stove (CLS)	Ceiling (CWN)	Roofing (CXB)	Shop/Shed (CAF)
\$ 280	\$ 265	\$ 6,674	\$ 36	\$ 437	\$ (215)
-	-	78	-	-	-
-	-	-	-	-	-
<u>\$ 280</u>	<u>\$ 265</u>	<u>\$ 6,752</u>	<u>\$ 36</u>	<u>\$ 437</u>	<u>\$ (215)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
280	265	6,752	36	437	(215)
280	265	6,752	36	437	(215)
<u>\$ 280</u>	<u>\$ 265</u>	<u>\$ 6,752</u>	<u>\$ 36</u>	<u>\$ 437</u>	<u>\$ (215)</u>

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit C)
	Midway Reroof (CRF)	Midway Reroof (CKV)	
ASSETS			
Cash and cash equivalents	\$ 29,250	\$ 3	\$ 37,559
Interest receivable	-	-	78
Due from other governments	284	-	284
 Total Assets	 \$ 29,534	 \$ 3	 \$ 37,921
LIABILITIES AND FUND BALANCES			
Liabilities	\$ -	\$ -	\$ -
 Fund Balances:			
Unreserved:			
Undesignated	29,534	3	37,921
 Total Fund Balances	 29,534	 3	 37,921
 Total Liabilities and Fund Balances	 \$ 29,534	 \$ 3	 \$ 37,921

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006**

	CAPITAL PROJECTS FUNDS		
	Cem Exp (CAE)	Well (CFW)	Generator (CFZ)
REVENUES			
Investment earnings	\$ 24	\$ -	\$ 1
Total Revenues	24	-	1
EXPENDITURES			
Capital outlay:			
Structures and improvements	-	-	-
Total Expenditures	-	-	-
Excess of Revenues Over (Under) Expenditures	24	-	1
OTHER FINANCING SOURCES			
Transfers in	-	-	-
Total Other Financing Sources	-	-	-
Net Change in Fund Balances	24	-	1
Fund Balances - beginning	795	6	3
Fund Balances - ending	<u>\$ 819</u>	<u>\$ 6</u>	<u>\$ 4</u>

CAPITAL PROJECTS FUNDS					
FS Addition (CGI)	Strge Contain (CKU)	Stove (CLS)	Ceiling (CWN)	Roofing (CXB)	Shop/Shed (CAF)
\$ 7	\$ 12	\$ 255	\$ 36	\$ 360	\$ (349)
7	12	255	36	360	(349)
-	-	3,500	12,000	-	-
-	-	3,500	12,000	-	-
7	12	(3,245)	(11,964)	360	(349)
-	-	-	12,000	(40,000)	(70,000)
-	-	-	12,000	(40,000)	(70,000)
7	12	(3,245)	36	(39,640)	(70,349)
273	253	9,997	-	40,077	70,134
\$ 280	\$ 265	\$ 6,752	\$ 36	\$ 437	\$ (215)

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006**

	<u>CAPITAL PROJECTS FUNDS</u>		Total Nonmajor Governmental Funds (see Exhibit D)
	<u>Midway Roof (CRF)</u>	<u>Midway Reroof (CKV)</u>	
REVENUES			
Investment earnings	\$ 506	\$ 3	\$ 855
Total Revenues	<u>506</u>	<u>3</u>	<u>855</u>
EXPENDITURES			
Capital outlay:			
Structures and improvements	<u>10,972</u>	<u>3,925</u>	<u>30,397</u>
Total Expenditures	<u>10,972</u>	<u>3,925</u>	<u>30,397</u>
Excess of Revenues Over (Under) Expenditures	<u>(10,466)</u>	<u>(3,922)</u>	<u>(29,542)</u>
OTHER FINANCING SOURCES			
Transfers in	<u>40,000</u>	<u>3,925</u>	<u>(54,075)</u>
Total Other Financing Sources	<u>40,000</u>	<u>3,925</u>	<u>(54,075)</u>
Net Change in Fund Balances	29,534	3	(83,617)
Fund Balances - beginning	<u>-</u>	<u>-</u>	<u>121,538</u>
Fund Balances - ending	<u>\$ 29,534</u>	<u>\$ 3</u>	<u>\$ 37,921</u>